



THE COMMONWEALTH OF MASSACHUSETTS
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June 21, 2002

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, Massachusetts 02110

Re: KeySpan Energy Delivery New England, D.T.E. 02-32

Dear Secretary Cottrell:

Pursuant to the schedule established during the evidentiary hearing, the Attorney General submits this letter as his Comments concerning the filing made by KeySpan Energy Delivery New England ("KeySpanNE") or ("Company").

I. INTRODUCTION

On May 10, 2002, KeySpanNE filed a petition with the Department of Telecommunications and Energy ("Department") for approval of revised rate tariffs effective July 1, 2002 for its Massachusetts gas companies: Boston Gas Company, Colonial Gas Company, and Essex Gas Company (together, "the Companies"). In its filing, the Company proposes to lower distribution rates. The Company plans to convert its customer information system to the system used by its New York affiliate. This new method of bill-calculation and bill format will result in revenue over-collection and therefore KeySpanNE has proposed a revenue neutral rate reduction.

On May 24, 2002, the Department issued a notice of public hearing, followed immediately by an evidentiary hearing on June 12, 2002. The Attorney General filed a notice of intervention pursuant to his statutory authority to intervene in rate proceedings. G. L. c. 12, § 11E. The Attorney General is the sole intervener in this case.

II. COMMENTS

The Attorney General supports the Company's efforts to improve its customer service, information and billing systems. Those issues, however, are not before the Department in this

case. The Company is not seeking Department approval to change its billing system.¹ Rather, it has appropriately sought approval to lower gas distribution rates in order to maintain revenue neutrality because the proposed conversion will result in over collections. In addition, the Company proposes to modify its terms and conditions to permit more frequent bill prorations, a key component of the new system's billing protocol.²

A. Revenue Neutrality

Although the Company has sought to maintain a revenue-neutral system change, the record demonstrates that even with the proposed rate reduction, some customers may receive cost increases as a result of the consolidation. Tr. at 149-150. Furthermore, it is possible that under actual weather conditions, the Company may enjoy a revenue increase related simply to the way the new billing system calculates bills as compared to the current billing system.³ The Department, therefore, should require the Company to recalculate the revenue impact of the new system.⁴ If the new system generates a higher level of revenue than current system, the Company should be required to refund that amount on a per customer basis (the largest contributing factor to the revenue increase is the customer charge).⁵ Tr. at 130-131.

B. Customer Bill Confusion

¹ Under the Department's broad supervisory authority the Department could have expanded the scope of the case to include an investigation into all aspects of the conversion, not just the proposed rate reduction. G.L. c. 164, § 76 (general supervisory powers). Such an expansion would have been particularly appropriate in this case since customers may be affected immediately to their detriment and because of concerns regarding planned staff reductions. Tr. at 60-61.

² Due to the compressed schedule established by the Department in this proceeding, the Attorney General reserves the right to comment further in this matter.

³ The Company's proposed rate reduction is based on customer usage under normal weather conditions. Actual weather conditions will produce revenue differences between the old and new billing systems, even with the proposed rate reductions in effect. The Company should not benefit from any revenue increase related to the proposed billing system changes.

⁴ The Attorney General proposes that the Company calculate the revenue differential using the spreadsheet models that the Company used to calculate the proposed rate decreases, and substitute actual bill determinants for normal determinants used in the filed models. In performing this calculation, the Company should use the actual rates in effect during the 12 months after the conversion.

⁵ If this exercise shows that the companies' revenues fall short, the Companies could not adjust their rates to compensate because this would represent a general rate increase, which may be allowed only after a full rate case investigation. G.L. 164, §94. Furthermore, any such increase would be tantamount to a single issue rate case, something the Department has long prohibited. See *Tax Reform Act*, D.P.U. 87-21-A (1987) (recognizes utilities could reap excessive profits by including single cost increases in rates without the assessment of overall rates), *Housatonic Water Works Co.*, D.P.U. 95-81, p.3 (1996); *Commonwealth Gas Company*, D.P.U. 92-151, p. 4 (1992); *NET*, D.P.U. 84-267, pp. 8 - 13 (1985).

The Company's filing raises a number of concerns that relate to the ability of a customer to understand the charges and information contained on the bill. Even though the Company asserts that the new system is an improvement and will benefit customers, every section of the bill reveals some change, and the corresponding benefit to customers is not apparent. While changes in terminology, calculations and headings facilitate the ease with which the Company can consolidate its New England customer service operations with its New York operations, KeySpanNE has not offered a plan for sharing the benefits of such consolidation with customers. Therefore, the Attorney General requests that the Department order the Company to conduct an extensive customer education program about all of the changes in a timely fashion, not merely via a single bill insert.

1. CUSTOMER CHARGES

The Department should require the Company to show the approved tariff rates for these rate elements on the customers' bills in such a way that customers will be able to discern the bill accuracy. For example, under the new system, if the billing period is more or less than thirty days, the customer charge and the block breaks will be pro-rated and bills will show the pro-rated customer charge and the pro-rated block break without showing the tariffed amount, preventing the customer from determining the correct amount for the related charges. Tr. at 90-91. The Company should provide customers with sufficient information to determine whether they have been billed the proper amounts.

2. BUDGET BILLING PLANS

Customers benefit from utility budget billing plans, but under the Company's proposal, customers will lose some bill amount stability. KeySpanNE proposes to review and, potentially, adjust the customer's monthly payment amount more frequently (every four months) than under the current system. While more frequent changes may result in smaller balances at the end of a budget plan period, customers lose the ability to have a uniform payment over the heating season. Tr. at 52-53. While the Attorney General understands that occasionally customers' level payment amount may need to be adjusted if there have been significant changes in consumption levels or gas prices, it is not evident how the new system will benefit the vast majority of customers on budget billing. In fact, the new budget billing system may pose a problem to customers who rely on advance notice of their monthly payment on an annual basis. Tr. at 50-51. The Department should require the Company to adjust the level payment of existing budget billing customers no more than one time each year.

The bill format itself may also present a problem to budget billing customers. As proposed, the bill includes a Balanced Billing Summary which lists the installments billed to date and gas usage to date. The difference between the two is labeled "Balance Due Company," although that amount is actually not the Balance Due, but merely the difference between the amount billed and the amount of actual customer consumption. This label may easily mislead consumers into thinking that the "Balance Due Company" is the only amount due. The Company could resolve the confusion if it labels the column "Billing Difference," which is

exactly what the signified amount represents. Therefore, the Department should require the Company to ensure that its bill is not confusing to customers and that the information on the bill is labeled correctly.

3. CUSTOMER ACCOUNT NUMBERS

As part of the conversion process, KeySpanNE has proposed to change customer account numbers. On cross-examination, the Company's witnesses said that they were not aware of any confusion or errors that could result by changing account numbers. The Department should require the Company to provide notice of account number changes, including information such as the phone number of the Company's customer service department.

With a system change of the magnitude of the KeySpanNE conversion, however, errors are likely to occur and customers will experience a decline in service quality as a result. The Department should require the Company to compensate customers for any decline in service quality by ordering the Company to notify customers that, if any billing errors or mistakes occur as result of the conversion, the affected customer is eligible to receive an individual customer service quality guarantee payment of \$25, in addition to the immediate correction of the problem. The possibility of such customer service payments will provide significant incentive for the Company to make every effort to avoid customer bill inaccuracy and service disruptions.⁶

C. Staffing Levels

The Company is converting to a customer service system located and controlled outside the service territories of the Massachusetts companies, even though it appears that the call centers and customer service representatives will remain in their current Massachusetts locations and at their current staffing levels for the time being.⁷ Apparently, the Company has determined that the anticipated savings and other efficiencies from this new system outweigh the conversion costs. Tr. at 32 (\$30 million one time cost, \$5 million annual savings estimated). The costs to customers, however, have not been fully mitigated, and in fact, the Company has failed to address one significant cost to customers: the increase to the Company's working capital requirement. The Company's witness, Mr. Ponticelli, testified that currently all bills are processed and mailed from West Roxbury, Massachusetts, and that after the conversion they will be mailed from New York. Such an arrangement will increase the billing lag component of the working capital requirement formula which will in turn increase the Company's working capital

⁶ The Department has embraced the concept of individual customer payments for certain service quality standards such as missed service appointments. *See Investigation by the Department of Telecommunications and Energy on its own Motion to Establish Guidelines for Service Quality Standards for Electric Distribution Companies and Local Gas Distribution Companies Pursuant to G.L. c. 164, § 1E, D.T.E. 99-84, pp. 36-38 (2001).*

⁷ The Company does not give any assurances about future call center locations or staffing levels. *See G.L. c. 164, § 1E (b).* The Department should require the Company to file all future plans about call center staffing levels and changes with the Department prior to implementation.

revenue requirement component of both base rates and the Cost of Gas Adjustment factor (CGA). The Attorney General objects to any recovery of conversion related costs, either through the CGA or any other rate element, without a full investigation of costs and benefits of the new system. The Department should review these costs as part of the Company's next base rate case.⁸

III. CONCLUSION

The Department should approve KeySpanNE's proposed rate reduction. The Attorney General supports the Company's efforts to reduce rates for customers through merger savings, but the Department should require the Company to assure the conversion will be revenue neutral, alleviate customer bill confusion, and ensure that changes in staffing levels do not erode service quality after the system conversion.

Sincerely,

Judith E. Laster
Assistant Attorney General

⁸ In addition to the increase in the working capital requirement, there may be significant increases to postage costs related to moving the mailing distribution point out of state. These additional costs would not affect the companies' rates until the next base rate case. The Company has indicated that there may be a working capital off-set not identified during the hearing. Apparently, the billing lag will be reduced by one day due to the ability to have meter readings processed the same day rather than one day after the meters are read. RR-AG-6. This does not alter the Attorney General's position that no working capital increases should be passed through rates until the Department has had an opportunity to review all aspects of the Company's costs during a base rate case.